

## Reverse charge VAT

I am concerned that anyone reading newslines will think that this is a minor change in VAT that might or might not happen in 2019 and that they will sort out the change as and if it happens. What is she going on about? you are all thinking.

**Reverse charge VAT is probably the biggest change in VAT that anyone currently working in construction will ever have to deal with and it is definitely going to happen in October 2019.**

Whilst it is hard to start doing much but think and talk, we **must** start thinking and talking now because the change could send firms into cash flow crisis and will certainly be a difficult transition to make for everyone large small, specialist or main contractor.

The legislation to force a change has already been passed by parliament so there is no hope of living like the ostrich with your head in the sand. At the moment there is a group of tax specialists, including me, meeting with HMRC to discuss how the reverse charge can be made to work. A consultation is likely to be released before the next newslines and it is important to read it carefully and think. As soon as it is released I will suggest a response but you **must** be aware of the change.

The consultation will not be a consultation about whether you think it is a good idea or not; that bird has flown. It will be about how we will get the whole industry to reverse charge its VAT from 1st October 2019 without fouling up our own VAT returns and those of others, and without failing to account for tax and leaving ourselves vulnerable to a request for tax which has not been collected.

Just imagine a contract to build a new private hospital. If we take it simply the first contract will lie between say Private Hospital Group PLC and a main contractor. There will also be a subcontract between the main contractor C and a subcontractor B who will level the ground and put in the footings. Then there will be a contract between that subcontractor A and a gang master who will supply 20 men to do the work.

Now let us think about the VAT as it runs now. The gang master will charge subcontractor A say £10,000 plus VAT £2000 for his men for a week. He must pay that VAT to HMRC, his men are all below the VAT threshold or employed. He has no VAT to recover.

Subcontractor A who pays the gang master can recover the VAT he is charged but will charge subcontractor B say £10,100 plus VAT £2020 for that aspect of the contract. Because he can recover that VAT he has been charged (£2000) he only actually pays HMRC £20 (£2020 less £2000) on this aspect of the work.

Subcontractor B also makes a turn when he supplies the main contractor for this aspect of the work. He charges £10,600 plus VAT £2120. On his VAT return he has to pay £100, he has charged VAT of £2120 but paid VAT of £2020.

The main contractor charges the client £11,130 plus VAT £2226 for this aspect of the work. The main contractor actually pays HMRC £106. He will have collected £2226 from the customer but can reclaim the VAT of £2120 he paid the subcontractor B.

If we consider the chain from a HMRC perspective, there is VAT due on the hospital supplied to an 'end consumer' of £2226. This money has actually been paid to them as £2000 from the gang master, £20 from A, £100 from B, £106 from C.

HMRC have told parliament that there is too much fraud going on at the bottom of the construction chain and that it is only too easy for the first player, the gang master in my example, to go missing.

The new legislation starting in October 2019 will have all participants who are supplying services within the CIS scheme 'reverse charging' their supply.

So the gang master will make a standard rated supply of services but will 'reverse charge' his invoice. That is to say that his subcontractor A will not be invoiced for VAT although the supply is still standard rated nor should VAT be paid. The gang master's VAT return will not show VAT in respect of the work. If he invoices for VAT his invoice should be returned to him and a reverse charge invoice requested.

Subcontractor A will also reverse charge subcontractor B. Subcontractor B will reverse charge the main contractor. No VAT will be paid by them or to them as money. Their returns will show the notional VAT that is due on the supplies as both input and output tax so that no money is collected or paid by them as VAT on this supply.

## Reverse charge VAT continued

Finally we come to the main contractor who is charging the customer who is an end consumer. He must charge full VAT and pay it to HMRC.

In this case the main contractor charges the customer £2226, he has no input tax to recover because he has not been charged any by subcontractor B who has 'reverse charged the supply. The main contractor pays the full £2226 he collects from the customer to HMRC.

Once you have mastered the concept, you will see HMRC collecting its VAT from the parties that immediately face the customer rather than from the very bottom of the subcontract ladder. Their thinking is obvious. They think that the firms that trade with customers and hold the main contracts are the least likely to cheat the Revenue, and the easiest to find.

The problem with the new scheme comes in defining with certainty who is an end consumer or final customer. This is someone who is not registered for VAT and is not going to make an onward supply of the goods and services you have made to them in the construction industry.

What will it mean for you? Well you must think it through. How often do you bill a customer who is not registered for VAT (they must always be charged VAT) or if registered for VAT is not going to operate CIS on the payment?

**If your customer is not VAT registered you will always charge VAT.**

**If your customer is VAT registered but not going to operate the CIS scheme on the payment you will still charge VAT.**

If your customer is another VAT registered construction industry player, you will reverse charge and no VAT money will change hands.

Now do you see why I keep 'banging on' that you must think about the consequences of Reverse charge VAT?

- you will need to think about and plan the cash flow of your firm especially if your trade puts you firmly in the middle of other contractors with little customer /end user contacts.
- you will need to have accounts staff trained and new invoicing systems set up so that you know when and when not to charge VAT and how to deal with subcontractors and contractors who are making mistakes.
- you will need systems in place that check the VAT numbers of customers and possibly their CIS identity.

Once we have the consultation out we will see exactly what the new rules will be. Then there will be training courses and software changes. **Look out for news and leave yourselves a budget for change.** ■

## Making Tax Digital – VAT

Many many VAT registered traders keep their accounts with accounting software but do their VAT returns by going in through the Government gateway and manually retyping the totals that their accounting packages have given them.

Many traders keep their accounts on excel spreadsheets of their own design, or in paper books and records. They too produce summary figures once a quarter and go in to their business tax account online and submit an online VAT return. None of this will be allowed for any accounting period starting after April 2019. Then you must have used HMRC approved software to produce the figures for VAT and have submitted them simply by pressing a submit button. Access to a manual VAT return to be completed online will go.

This summer HMRC is to announce the names of the software packages and firms which have got approval to date. You must begin to plan what you will use. Sorry to repeat this time and time again. ■

## Extension of benefits for childcare voucher schemes

The childcare voucher scheme was due to close to new entrants in April 2018; in March the deadline was extended, but some employers had already closed schemes to new entrants and the tax-free status of those schemes was lost.

Employer childcare voucher schemes which have been replaced by the new Tax-free Childcare scheme can now remain open to new entrants until 4 October 2018, but due to the late notification by HMRC of this extension some employers had already closed their schemes and it has not been practical to re-open them.

Childcare voucher schemes must be open to all employees in order to attract income tax and NIC relief. HMRC have therefore announced that it is exercising its discretion under its collection and management powers to allow income tax and NIC relief to continue for participants in such schemes despite them being closed to new entrants. ■

**Liz Bridge is the author of newslines.**  
**If you have any queries on any of the items in this newslines or a tax query please contact**  
**Tel: 020 8874 4335**  
**[liz@thetaxbridge.com](mailto:liz@thetaxbridge.com)**